

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7123
BILL NUMBER: SB 389

DATE PREPARED: Mar 26, 2001
BILL AMENDED: Mar 26, 2001

SUBJECT: Taxation.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows South Bend and Ft. Wayne to establish economic development project districts. It provides that the districts must contain a commercial retail facility with at least 500,000 square feet. In South Bend and Ft. Wayne, the bill allows sales tax increment financing to be used in the district for road, interchange, and right of way improvements and for real property acquisitions to further these purposes. In Ft. Wayne, it provides that the sales tax increment may also be used for the demolition of commercial property and any related expenses. The bill provides that not more than 50% of the net increment each year may be used for these purposes. It also provides that not more than a total of \$1,000,000 of sales tax revenue increment may be captured during the existence of the district.

This bill provides that the city of South Bend may grant a property tax abatement deduction to a taxpayer that has fulfilled all expectations of the city concerning job creation or retention, capital investment, and other requirements imposed by the city, but is not eligible for the deduction because of a failure to comply with a requirement of the abatement statutes.

Effective Date: January 1, 2001 (retroactive); July 1, 2001.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) *South Bend and Ft. Wayne Economic Development Project Districts:* The establishment of economic development project districts in South Bend and Ft. Wayne could reduce state sales tax revenue by a total of \$2 M. This bill allows both cities to establish a district and use up to 50% of the net increment of sales tax revenue generated in the district each year. The overall impact of this provision on state revenue will be determined by local actions. It is not known how much sales tax will be collected and transferred annually.

This bill does not give the cities' redevelopment commissions the privilege to collect a sales tax. It does,

however, allow the commissions to capture a portion of the increase in sales tax revenue collected in the district that is *above* the revenue generated in a base year, as determined by the Department of Revenue. The bill limits these collections to a total of \$1 M in each district.

Abatement: The State levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *South Bend and Ft. Wayne Economic Development Project Districts:* If South Bend and Ft. Wayne were to utilize the incremental sales tax provisions in this bill, it could increase local revenue annually by an indeterminable amount. The total amount of sales tax increment is limited to \$1 M over the duration of each district. The bill specifies that this revenue could only be used for improvements related to roads, interchanges, and right-of-ways. The city of Ft. Wayne would also be permitted to use the revenue for the demolition of commercial property.

Abatement: This bill would allow the City of South Bend to grant property tax abatements to taxpayers effective with property tax paid in CY 2002 if:

- (1) The city offered to provide the abatement to the property owner before January 1, 2001;
- (2) The owner has met the expectations of the city concerning employment, investment, and other city-imposed requirements;
- (3) The owner and/or the city failed to comply with the all of the filing requirements; and
- (4) Both the city and the owner complete the usual filing and approval procedures under current abatement law before July 1, 2001.

Property tax abatements cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. If a taxpayer fails to receive the deduction, then the shift of taxes to that taxpayer occurs immediately. By allowing the late filed deduction under this proposal, the shift is again delayed.

One taxpayer has been identified as meeting the qualifications of this provision. The taxes to be paid due to the missed abatement are approximately \$110,000 - \$135,000 in CY 2002. This bill would shift that amount to all other taxpayers. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

It is not known whether any additional taxpayers could qualify for an abatement under this proposal.

State Agencies Affected:

Local Agencies Affected: City of South Bend; Department of Community and Economic Development, South Bend; St. Joseph County Auditor; City of Ft. Wayne; Allen County Auditor.

Information Sources: Department of State Revenue; Auditor's Office; Treasurer's Office; Joe Loftus; Barnes & Thornburg.